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RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000378

SIPDIS

SENSITIVE
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ENERGY FOR CDAY AND ALOCKWOOD
NSC FOR JSHRIER

E.O. 12958: DECL: 01/28/2018
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: PDVSA CHANGES THE RULES YET AGAIN

REF: A. CARACAS 264

[1](#)B. CARACAS 108

Classified By: Acting Economic Counselor Shawn E. Flatt for Reason 1.4
(D)

[1](#)1. (C) SUMMARY: PDVSA is demanding payment in euros for at least some oil sales. It is not clear what is the extent of the new policy. PDVSA is also considering asking purchasers to pre-pay for purchases. To the surprise of industry insiders, PDVSA will comply with President Chavez' order banning asphalt shipments to the United States. Asphalt production will be sold to the Chinese in the form of fuel oil. PDVSA continues to suffer refinery problems and is importing gasoline and components. END SUMMARY

WHATS GOOD ENOUGH FOR BRAZILIAN MODELS IS GOOD ENOUGH FOR ME

[1](#)2. (C) Reuters reported on March 14 that PDVSA was demanding payment in euros for some oil sales. Media reported later in the day that PDVSA officials had confirmed the story. However, a shipping executive and marketing executive told Petroleum Attache (Petatt) on March 14 that PDVSA may now be requiring payment in euros for all oil sales. The shipping executive stated he was told by a PDVSA finance official that the only exception to the policy was for shipments originating in Curacao. He acknowledged he had received mixed messages from PDVSA officials as to the extent of the policy but added he had seen PDVSA documentation that clearly stated payment was to be made in euros. He added that PDVSA currently has a tender for light naphtha that requires payment in euros. The shipping executive said transactions were to be computed in dollars and then converted to euros at the current rate at the time of invoicing. The executives believe buyers are depositing the

payments in a Swiss bank. They believe the bank is UBS.

¶3. (C) Both executives stated PDVSA is currently studying changing payment terms to require pre-payment for oil sales. According to the executives, PDVSA has been studying the proposal for the past two months. The shipping exchange complained that PDVSA's payment terms hurts his company in two ways. First, the current 8 day payment requirement makes life difficult because his company does not receive payment from its customers for 60 to 90 days. In addition, the requirement to pay in euros forces his company to incur foreign exchange risk. Both executives stated they view a pre-payment requirement as an open invitation to corruption due to the fact that there will be plenty of opportunities for "commissions".

¶4. (C) Chevron Latin America and Africa Exploration and Production president Ali Moshiri (strictly protect throughout) told Petatt on March 16 that Chevron has not heard anything about a new pre-payment requirement. He opined that PDVSA may try to impose the pre-payment terms on niche players who are in less of a position to walk away from Venezuela. Moshiri stated he did not believe the euro requirement was important. He noted the requirement did not make sense commercially for Venezuela since most of its imports come from the United States, rather than Europe.

NO ASPHALT FOR THE U.S. MARKET

¶5. (C) The shipping and marketing executives also stated PDVSA is serious about complying with President Chavez' January decision to ban asphalt exports to the United States.

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Industry insiders had originally believed that Chavez' order was nothing more than political theater and that PDVSA would continue supplying asphalt as usual. (NOTE: Asphalt, which is mainly used for roads and roofing, is a seasonal product with shipments beginning in March. The season runs into the fall months. END NOTE)

¶6. (C) The shipping executive said his company had arranged for a tanker to transport asphalt to Puerto Rico when PDVSA canceled the shipment. He said the cancellation came as a shock and forced his company to reposition several tankers. According to the executive, PDVSA's asphalt officials had planned to conduct business as usual. During an internal meeting, a senior PDVSA official sharply asked one of the asphalt officials what part of Comandante Chavez' prohibition did he not understand.

¶7. (C) According to the marketing and shipping executives, asphalt will now be exported to Curacao. Asphalt that previously went to the U.S. market will be sold to the Chinese in the form of fuel oil. The executives believe only 8,000 to 9,000 barrels of asphalt per day is being exported via Curacao. Curacao provides asphalt to the Caribbean. As a result, 80% of the asphalt base is being converted into fuel oil and being sold to China. The executives stated the Chinese have received a good price for the fuel oil since fuel oil prices have been declining recently. The executives believe that PDVSA is picking up the price of transport, which is substantial.

¶8. (C) Both executives stated the asphalt ban has been particularly hard on Citgo. Citgo executives gave a presentation to PDVSA requesting that PDVSA continue shipments of roofer's flux to Citgo. (NOTE: Roofer's flux, also known as roofing flux, is a low viscosity, high flashpoint residue of the vacuum distillation that is used as a feedstock in the manufacture of oxidized bitumen, which is used in roofing. END NOTE). The Citgo executives stated that PDVSA's decision to halt shipments would cost Citgo USD 28 to 29 million. Despite the Citgo executive's pleas, PDVSA refused to resume shipments.

¶9. (C) Both of the executives and Moshiri stated the asphalt ban would not have a measurable impact on the U.S. market. Asphalt sales are usually made on the spot market. The marketing executive stated Canada would be the biggest beneficiary of Chavez' ban. Although the asphalt comes from Petroboscan, a joint venture between PDVSA and Chevron, Moshiri stated the ban would have no impact on Chevron's bottom line. Under the terms of the joint venture, Chevron receives its compensation in cash via a pricing formula or in production. PDVSA has elected to pay Chevron under the formula. According to Moshiri, Chevron receives USD 8-10 above market price under the formula. Moshiri stated he does not believe PDVSA will switch to paying actual production since under the terms of the agreement it would have to reveal the price it was receiving for its share of production. Moshiri was confident that PDVSA would never reveal the terms it was receiving from the Chinese. When Petatt opined that PDVSA's opportunity costs must be horrific, Moshiri agreed. He added that Boscan crude can not be used as fuel oil in the U.S. because of its high metal content. He opined that the Chinese "were willing to burn anything".

PDVSA STILL PLAGUED BY REFINERY PROBLEMS

¶10. (C) The marketing executive, who has a background in CARACAS 00000378 003 OF 003

refining, stated PDVSA has basically ceased exporting refined products. Exports consist of fuel oil. As a result of its refinery problems, PDVSA continues to import gasoline components rather than producing its own inputs. The executive stated Venezuela was basically "importing gasoline indirectly". Despite refinery problems, PDVSA management has asked refineries to reduce their costs.

¶11. (C) As a result of government subsidies and the importation of components, gasoline is a major drain. The effect is heightened by a change in domestic consumption patterns. According to the shipping executive, domestic consumption in 2003 was 30% unleaded gasoline. Presently, the 90% of domestic consumption is 95 octane unleaded gasoline. The executive noted that 95 octane gasoline has too much oxygen due to refinery problems and is of poorer quality than the 91 octane gas that Venezuelans snub.

¶12. (C) The Cienfuegos refinery in Cuba has also been a headache for PDVSA management. Despite spending USD 350 million on upgrading the refinery, PDVSA has little to show for its investment. PDVSA recently had to send 180,000 barrels of naphtha to Cienfuegos because the refinery does not have a cracker. The executives noted sarcastically that it would have been cheaper for Venezuela to give crude to Cuba.

¶13. (C) The executives also stated they were pessimistic about the maintenance shutdown at the Petrocedeno upgrader (Reftel A). Neither executive believed there was sufficient light crude in order to mix with the output from Petrocedeno's fields. Both of the executives stated there currently is no Mesa 30 available for mixing. The shipping executive stated Petrocedeno did place one shipment of Zuata 16 (a mix of extra heavy crude from Petrocedeno and lighter crudes) on the market. Valero purchased the crude and placed it in floating storage.

COMMENT

¶14. (C) PDVSA's recent changes in payment terms is just further evidence of their cash flow problems. President Chavez' political agenda continues to drive Venezuela's oil policy, notwithstanding PDVSA's production and cash flow problems (Reftel B). The ban on asphalt shipments to the

United States suggests political considerations will continue to override commercial concerns (or for that matter common sense) at least for the time being.

DUDDY